

# Developing a human capital strategy in today's changing environment: eight forces shaping HC strategy

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## Abstract

**Purpose** – Internal and external forces are part of a changing environment affecting organizational performance. As a result, human capital strategies must adapt. The aim of this article is to identify the forces that have the most impact and should be addressed by the HR team through specific human capital strategies.

**Design/methodology/approach** – It identifies global shifts and trends that are occurring that must be included in the HC strategy of organizations.

**Findings** – This article details eight forces that have a tremendous influence on the effectiveness and efficiency of organizations. They are: accountability and expectations, energy and environment, globalization and the global economy, societal changes, shifting demographics, empowerment and engagement, technology and social media, and work/life balance.

**Practical implications** – If these specific forces are not addressed, organizations will be less effective, efficient and profitable. The challenge is to address these forces in specific human capital strategies so that the proper attention, focus and resources are applied to make the organization successful.

**Originality/value** – This is original work and research performed through the ROI Institute, Inc., and has not been published previously.

**Keywords** Change, Accountability, Globalization, Human capital strategy, Shifting demographics, Technology and social media

**Paper type** Case study

**H**uman capital (HC) is the most critical part of an organization, yet it often does not command proper respect and is considered administrative work in many organizations. HR bashing in professional literature is common, with fun being made of HR policies and bad advice and wisdom from HR professionals.

HR's role and influence need to change relative to the environment. The challenge is to connect important external changes to the human capital strategy. If it is important enough for strategy, then it will be addressed properly in the organization. Unfortunately, typical human capital strategy focuses on the administrative functions of acquiring, developing and maintaining talent in organizations, as shown in Table I. The HR function is relegated to an administrative role instead of a proactive business role.

At the same time, several forces are influencing classic HR measures, such as engagement, turnover, productivity and the business impact measures of the entire organization. These forces are best addressed and managed by HR, and the best way to ensure that is to include them in the human capital strategy.

Against that backdrop, it is helpful to review the eight forces that should directly influence human capital strategy in the future. These forces are based on 20 years of research, study, and practice in the field of human capital analytics.

**Table I** Current human capital strategy topics

Attraction of talent Retention of talent	Compensation and benefits Learning, growth and development	Talent management Diversity and inclusion	Safety and health Compliance and risk
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### Force 1: technology and social media

The use of technology shapes human capital strategy in many ways. One way is to make jobs more efficient and, in some cases, eliminate jobs. Significant use of technology essentially eliminates jobs, and this sometimes goes against the policy of governments but is necessary for an efficient, competitive organization. The key is to use technology to gain efficiencies and then use the savings to help generate additional volume, or invest in research and development that will ultimately grow jobs. Great organizations are efficient and profitable and create additional jobs.

Technology has an important meaning in the use of social media. Having a policy for the appropriate use of social media without inhibiting employee creativity and engagement is absolutely necessary. There will be abuses, and sometimes controls are necessary. The challenge is to use social media to facilitate internal and external job-related networking.

Technology also enables organizations to use knowledge management to capture expertise and share it. It has drastically changed employee communication. Employees can instantaneously know what is going on and have all types of data at their fingertips to help them better understand situations, react to changing issues and perform much better in the job. Much of formal learning has shifted to technology-based delivery, in the form of e-learning, blended learning and mobile learning. A sound human capital strategy focuses on streamlining work, harnessing knowledge and expertise, effectively using social media and using technology-based training and development.

### Force 2: shifting demographics

Demographics warrant serious attention by HR teams. The Generation Y group, often referred to as millennials, has received much attention, perhaps because this group appears to function differently from some of the traditional Gen Xs and Baby Boomers. Gen Ys may have to have special development in the areas of social skills, follow through and understanding of the organization. At the same time, programs are needed to tap the creative efforts and social consciousness of Gen Ys.

Another demographic issue is longevity. Economic, health, family and career issues are forcing many individuals to work beyond the usual expected retirement age. Boomers are not expected to retire in large numbers – at least not for several years – so the challenge is to fit them into the organization longer while keeping them productive and having them move over to make room for others in certain jobs. This will require innovative career development and succession planning projects. Gradual retirement, part-time work and work with foundations or charitable groups are possibilities to be considered for older employees. Still some older employees are the best contributors. There are many jobs in which it may be helpful for organizations to keep their expertise longer.

The role of women has become an important issue. Women are now at the top of organizations and some professions that were in historically male-dominated fields (accounting, for example). Women will make up the majority of the workplace and will be leading organizations. Adjustments and programs will be necessary to ensure that this change is facilitated effectively and efficiently.

### Force 3: accountability and expectations

With human capital representing the single largest expenditure in an organization, HR accountability continues to be high. Investments in human capital and in human capital

programs are huge, leaving executives and others asking for a proper return on that investment. Several issues are involved.

First, HR programs must deliver value, and that value must be defined by a balanced set of measures, including business impact. Value sometimes has to be financial (ROI) as well as nonfinancial (intangible benefits). Data are often collected from different sources at different times. Data sources have to be credible, and the data analysis has to be very conservative. Programs selected for this analysis tend to be very expensive, high profile or strategic.

Another issue is the assurance that the organization and the work are efficient and effective. This requires technology, elimination of unproductive work rules, and removal of roadblocks preventing performance. Steps must be taken to remove bureaucracy and help make the organization responsive, efficient and lean. Reward systems, work design and performance management systems must function properly to make the organization truly effective.

#### **Force 4: societal changes**

The world is facing societal changes that impact the HR arena. For example, job satisfaction and happiness ratings in general have been declining globally for some time. A decline in job satisfaction results in employee retention problems as the economy fully recovers. Dissatisfaction also takes its toll in other areas, such as complaints, grievances, absenteeism and health issues.

General distrust of institutions is also evident, particularly in the past decade. The public in general distrusts government, top executives and even NGOs and nonprofits. People in positions of authority, influence and power are losing the respect of citizens. This significantly impacts an organization as more and more employees distrust leadership, senior executives, boards of directors, advisors and others. Leaders will need to make decisions with more transparency and more collaboration.

Finally, the concept of family has been and continues to change. A family unit made up of a husband, wife and large number of children is now the exception, not the norm. There are divorced parents, same-sex parents, single parents that were never married, and many other combinations that can have an influence on an organization, its culture, and its productivity.

Human capital strategy must take these societal trends into consideration and address them in ways that can affect the HR function and organization.

#### **Force 5: energy and environment**

Most would agree that global warming is real and that people are causing the deterioration of the environment. Some employers are pursuing a role of helping the environment by pushing sustainability. They recognize that habits of employees (citizens) will not be changed significantly unless the employer gets involved. The employer can implement sustainability and awareness programs and ultimately help employees do their own part for the sustainability initiatives in the community. Also, many organizations are realizing that the chief sustainability officer should report directly to the HR executive. Unfortunately, that is not the case now, but more are moving in this direction, as it is the HR function that is more likely to effect change in employee habits.

Energy is dramatically affecting organizations and everyone involved with them. For example, the cost of fuel has brought a tremendous strain on the budgets of employees and

**“HR’s role and influence need to change relative to the environment.”**

their families. Fuel costs are requiring some organizations to make cost-of-living adjustments to salaries. They also have caused some employers to set up transportation and carpools and examine a variety of alternative work systems. The human capital strategy must be adjusted to help employees cope with rising costs and to help preserve the environment.

### **Force 6: globalization and the global economy**

While there are many advantages and proponents of globalization, it does have its down side, particularly in certain industries and in certain organizations. Companies in faraway countries can have a dramatic effect on a local economy. Witness what happened in Ireland, Greece, Spain, Portugal and Italy, for example. Employees need to understand how an economy, even on another continent, can affect their own savings plans.

Globalization has brought a tremendous amount of outsourcing from developed countries to underdeveloped countries. The proponents of outsourcing suggest that it is a necessity in providing the lowest cost product or service. Economists argue that outsourcing is necessary to ultimately equalize wages around the world. However, it causes unemployment and structural changes in the job market. It requires countries to develop highly skilled employees while outsourcing the lower skilled jobs. Also, outsourcing involves more than just cost. Service, convenience and quality – often byproducts of outsourced products and services – can be just as critical.

This is where HR can make a difference by challenging outsourcing decisions or at least raising questions about their impact. Is it necessary? Will it provide improvement in all areas? Is there a way to work out the issues to prevent outsourcing? For example, a trend is emerging to move some outsourcing back to the US. Many firms, such as General Electric, are beginning to bring outsourced products back from China for quality and service reasons. The same is happening for products and services outsourced to India. These problems could have been prevented if enough attention had been paid to the full range of metrics influenced in the outsourcing environment.

### **Force 7: empowerment and engagement**

The classic job satisfaction survey introduced in the 1950s focuses on satisfaction with pay, career, the work itself, the immediate manager and coworkers. Job satisfaction has evolved into organizational commitment, with more focus on involvement and connection to the organization. Commitment has evolved into engagement, which has more value. Engagement scores are very powerful because they not only correlate with attraction and retention but they also correlate with productivity, innovation and quality. Today's organizations must seek ways to keep employees fully engaged, not only to attract and keep them but also to make them fully productive, developing quality products and services.

The second element is that people feel more empowered to perform and change processes, particularly with Gen Y efforts using the internet and social media networking. Employees feel that they are empowered to assist and help the organization (or not), become engaged (or not), provide quality products (or not), and change or implement a policy (or not). This feeling of empowerment is either a tremendous resource to an organization or a threat. The human capital strategy of today must address these elements, ensuring that engagement scores are proper and seek ways to ensure that empowered employees channel their energies in productive ways.

### **Force 8: work/life balance**

In almost any organization in almost every country, the workforce seems to be over-stressed. While many factors cause this stress, the most critical is the commute to and from work. Traffic is getting more congested, commute times are increasing, and these long rides and drives are adding frustration and stress, which employees bring to work. Unfortunately, congestion will not improve for most cities, and public transportation will not relieve the issue to a significant degree.

**Table II** New additions to human capital strategy topics

Accountability and expectations Shifting demographics	Energy and environment Empowerment and engagement	Globalization and the global economy Technology and social media	Societal changes Work/life balance
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Because of this, organizations must examine flexible work systems, including work at home. This is a very significant trend in the US and has worked extremely well. Outside the US, work at home is uncommon, although it is a win-win for employees and the company, as well as for the environment. The payoffs are usually in the form of reduced real estate costs, (office space), higher productivity, increased engagement, fewer absences and reduced sick leave. The biggest barrier to this shift is managers who want to maintain their command and authority and believe that is best accomplished when they can physically see the employees.

Also creating stress is the perception that employees are always on call. In the professional ranks, employees feel obligated to respond in the evenings, on weekends and even during holidays. Executives and managers expect instant response from texts, tweets and e-mails. Governments have attempted to influence this, as in Brazil, where a law was passed to require mandatory payment of overtime for emails sent to employees after regular hours if they are expected to read and respond. Change in this area will have to come from employers through a human capital strategy.

Sometimes employees need help with work/life issues through an employee assistance program (EAP), but these programs are not enjoying widespread use in all countries. Providing routine assistance and support for emotional issues can produce a tremendous payoff in the wellbeing of employees and their subsequent effectiveness. Almost every study shows a positive payoff for organizations that work on work/life balance, and it certainly results in huge dividends for employees.

### The revised HR strategy

In summary, the classic HR strategy should be revisited and adjusted to adapt to global change. New additions to an updated approach to human capital strategy are shown in Table II. These forces, if not addressed properly, can inhibit an organization's success. If they are integrated into the strategy, they can create a more powerful, successful, profitable organization.

### About the authors

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